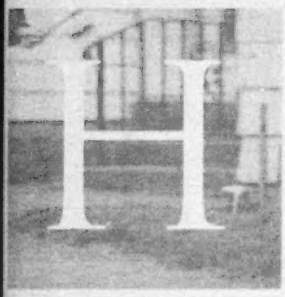


HOUSING MARKET OUTLOOK

Halifax

Canada Mortgage and Housing Corporation

VOLUME 3 EDITION 1
SPRING 2002

Rising Rates Expected to Cool Housing Market Activity

Low mortgage rates have spurred exceptionally strong growth in demand in the Metro home ownership market over the past 6 to 9 months, particularly among potential first-time homebuyers. However, mortgage rates have already begun to rise from 40 year lows and are expected to continue to do so over the next 18 months. This turning point in mortgage rates has influenced many buyers to speculate about future home ownership carrying costs and accelerate their home purchase plans accordingly. This has resulted in record levels of MLS™ sales, and with an already thin supply of existing homes listed for sale, house price growth has increased strongly, tipping resale market conditions even further in favour of the seller. Some of this demand has spilled over into the new homes market, resulting in a flurry of single and semi-detached home building in recent months. So the question on the minds of many in the local housing industry is, "Can this pace of housing market activity continue?"

Since there is virtually no historical precedent with which to compare the freefall in mortgage rates witnessed last year, it is equally difficult to forecast what is to come for the local housing market as rates begin to rise. However, it is our assumption that a substantial amount of home ownership demand has been brought forward into the fourth quarter of 2001 and the first half of 2002, which will manifest itself in a decline in housing demand in the second half of this year and into 2003. Based on these assumptions, the outlook for the Metro Halifax housing market is for a broad but shallow contraction in annual activity in 2002 and 2003.

IN THIS ISSUE

1 **Rising Rates Expected to Cool Housing Market Activity**

2 **Economic Overview**

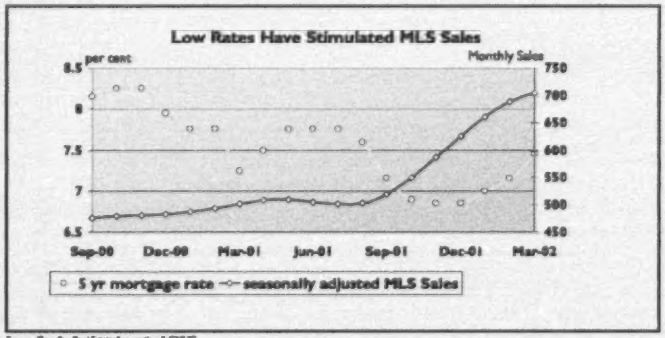
3 **New Homes Market:** Modest Declines in Total Housing Starts Forecast for 2002 and 2003

5 **Rental Market**

5 **Feature Article:** 2001 Census Highlights - Halifax CMA

6 **Resale Market:** Rising Mortgage Rates to Cool Hot Resale Market

8 **Forecast Summary**



Source: Canadian Real Estate Association & CMHC

CMHC SCHL

HOME TO CANADIANS

Canada

Economic Overview

Metro Economy Turbulent in 2001

The slowdown in the North American economy in 2001 coupled with the events of September 11th, resulted in a turbulent year in the local economy. While the Metro unemployment rate rose almost a full percentage point from 6.0 per cent in 2000 to 6.9 per cent in 2001, full-time job growth remained robust with roughly 4,000 full-time jobs created in 2001. Consequently, consumer confidence in Metro Halifax has remained quite healthy over the past year, stimulating strong local demand to offset malaise on the supply side.

IT and Transportation Suffer, Sales Surge

The spectacular decline of the global information technology industry manifested itself in local difficulties at ITI, Knowledge House, Pantellic Software and Core Networks. Furthermore, the transportation sector was dealt a serious blow in September, impacting local airline traffic and shoulder season tourism which caused some carriers to cut service while others disappeared completely. However, these losses were largely offset by the impressive performances of local retail sales and housing markets which have really been the driving force behind the resilience of the Metro economy. Consequently, the economic downturn in the local economy was not particularly acute. However, the impending recovery is not expected to be especially sharp either.

Rising Rates to Cool Sales

As the North American economy continues to show signs of a healthy recovery, the U.S. Federal Reserve and the Bank of Canada are expected to begin to unwind some of the stimulative interest rate cuts that were successfully implemented in 2001. These rising interest rates, in tandem with weaker personal disposable income growth, are expected to cool retail sales and housing markets later this year and into 2003. This is expected to relieve the retail, service and residential construction sectors from their admirable duty of supporting an otherwise very weak Metro economy over the past twelve months. Furthermore, it will also reveal the extent of the share of demand in these sectors that has been brought forward into late 2001 and the first half of 2002 by low borrowing costs.

Growth to Remain Tepid in 2002, Accelerate in 2003

The local economy is poised to improve only slightly this year, despite what currently appears to be the nascent stages of a rather bold recovery in the North American economy. Manufacturing and non-residential construction sectors in Metro are expected to improve this year with Halifax Shipyards and Litton Systems ramping up employment to meet contractual obligations and with the Halifax International Airport, Oland Breweries, Mount Saint Vincent University and Highway 101 undergoing expansions or renovations. However, it will be 2003 before the Metro economy resumes strong growth as the international economy hits its stride and Tier II Sable Gas and Encana Deep Panuke offshore energy projects move into development stage. Potentially, this growth may be complemented by the long awaited beginning of both the harbour cleanup project and local natural gas distribution network, both of which are showing early indications of progress. As a result, employment growth and net migration to Metro are forecast to improve significantly in 2003.

Mortgage Rates to Rise But Remain Low

The outlook for mortgage rates remains favourable with three and five-year mortgage rates in the 6.0-7.0, and 7.0-8.0 per cent ranges respectively over the next twelve months. We maintain the assumption that mortgage rate discounts, ranging from 0.25 to 1.5 percentage points, will remain and continue to be an important competitive instrument over the forecast horizon.

HOUSING NOW

Information is one of the most valuable commodities - particularly in the housing industry. It's what you know that spells success, in competitive, constantly changing environment. That's why we are pleased to offer **Housing Now**, a report that combines detailed monthly housing statistics coloured with expert analysis to give you data about the latest developments in the Metro Halifax housing market.

Housing Now - Halifax is published monthly, and includes quarterly updates on housing activity in other urban areas of Nova Scotia.

For more details, contact Johannes O'Callaghan at (902) 426-4708.

New Homes Market

Modest Declines in Total Housing Starts Forecast for 2002 and 2003

After falling 12 per cent last year, total housing starts in Metro are forecast to post more modest declines of three per cent this year and six per cent in 2003. A combination of low mortgage rates, a shortage of existing homes for sale and an early spring have catapulted total housing starts in the first quarter of this year 24 per cent higher than in the first quarter of 2001. However, first quarter starts are actually down just over four per cent from the previous quarter (Q4 2001), suggesting the possibility that the recent peak in residential construction in Metro may already have occurred. As both mortgage rates and inflation rise from very low levels over the coming 18 months, construction costs and mortgage carrying costs will increase, slowing down residential construction activity in the second half of this year and keeping it subdued through the first half of next year before a rebound to close out 2003.

Single Starts Constrained by Cost Increases and Land Supply

The current rally in single starts– which has culminated in a 45 per cent increase in single detached starts in the first quarter 2002 compared with the first quarter 2001– is not expected to continue past the end of the second quarter of this year. With mortgage rates having bottomed out and now beginning to increase, home ownership demand has intensified as potential homebuyers feel a sense of urgency to take advantage of historically low borrowing costs. Consequently, the new homes market is currently benefitting from a spillover of predominantly first-time buyers who are facing a very limited choice of existing homes available for purchase and related price acceleration.

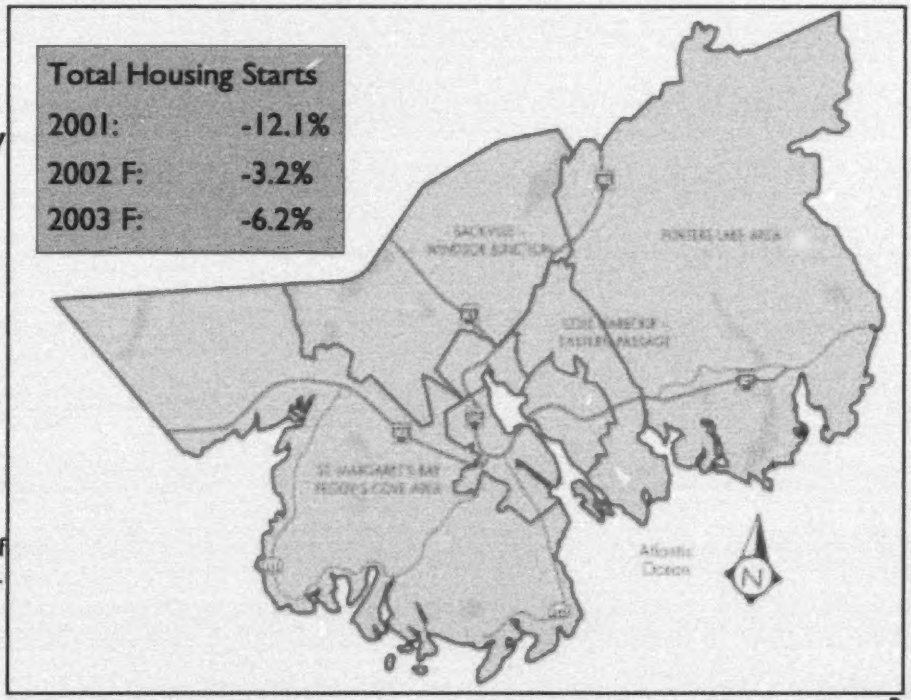
As more buyers turn to new construction, the inventory of unsold new homes is being drawn down, encouraging builders to introduce fresh supply. However, a limited supply of serviced building lots, tight trades labour conditions and rising building materials costs are providing the impetus for new house prices to continue their upward march, pricing some first-time buyers out of the new homes market. Furthermore, current homeowners who might be considering taking advantage of seller's market conditions to move up are thinking twice due to the aforementioned rising prices, and are instead choosing to renovate their existing homes to satisfy their wants and needs. As a result of these factors, single-detached housing starts are not forecast to rise over the forecast horizon and are instead expected to remain on par with last year at a respectable, but certainly not stellar, 1250 to 1300 units both this year and in 2003.

Multiple Starts to Drop Back Below 1,000 Units in 2002-2003

After the exceptionally high level of activity witnessed in 2000, multiple unit housing starts declined 19 per cent last year, but still remained above the 1,000 unit mark. Through the first quarter of this year, multiple starts are up only four per cent compared with the first three months of 2001, despite construction condusive weather and low borrowing costs. However, this modest rally is not forecast to continue.

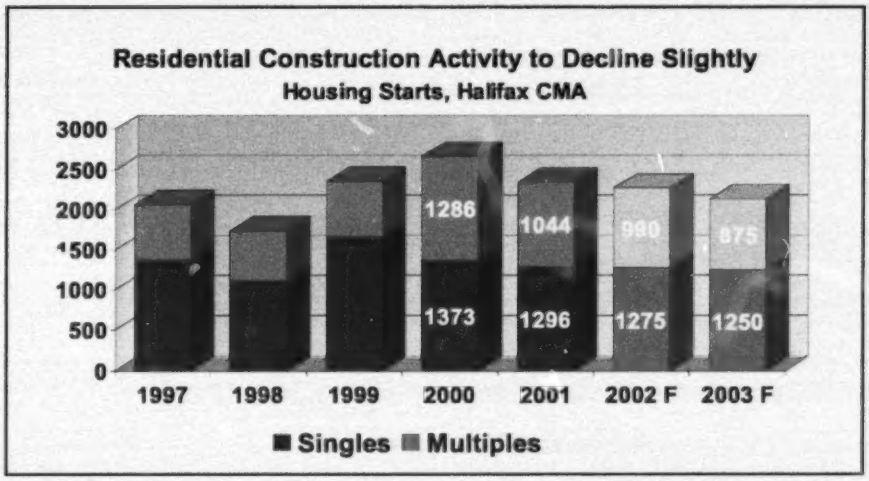
Net migration in Metro is expected to be relatively muted this year as job opportunities in St. John's and Cape Breton discourage many young people from leaving these areas for Halifax, while others currently living in Metro choose to leave for destinations west, as the

Total Housing Starts	
2001:	-12.1%
2002 F:	-3.2%
2003 F:	-6.2%



Alberta and Ontario economies lead Nova Scotia into economic recovery. Furthermore, the surge in first-time homebuyer activity has lured a substantial number of renters around the city out of tenancy and into home ownership. Consequently, rental demand is expected to weaken considerably this year and through the first half of 2003. On the positive side, an aging baby boomer population is providing a growing source of demand from non-traditional renters, and increasing university and college enrollments will introduce more students to the local rental market this fall and in 2003. However, this growth in demand at each end of the age spectrum of renters will not be sufficient to offset the aforementioned decline in demand from young working households.

As a result, it is anticipated that developers will proceed with more caution over the next 18 months, focusing their attention on areas of low vacancy such as Peninsula South and Bedford. Some will also consider introducing condominium projects to satisfy demand from both empty nesters and young professionals seeking the advantages of apartment living but also interested in building equity or parking their investment in real estate rather than a jittery stock market. Developers are also expected to channel resources into the relatively immature middle density ownership market in Metro by expanding semi-detached, row and townhouse offerings targeted at less affluent households who want to live close to the urban core but cannot afford a new single-detached home and do not want to live in an apartment building. Consequently, multiple unit starts are forecast to fall less than two per cent this year to just below a thousand units, and again in 2003 to 875 units.



House Price Growth Rate Expected to Decelerate in 2002

The average sale price of single-detached homes sold in Metro is forecast to continue to grow this year, but at a slower annual rate than in recent years. An improving economy will likely spur a higher rate of inflation as the year progresses, causing building materials prices to rise accordingly. Furthermore, the short supply of serviced lots in Metro will also create conditions for steady growth in the land component of the new house price index. However, trades labour costs may finally stabilize as residential construction activity slows down in the second half of this year. Indeed, the total number of housing units under construction in Metro dropped to 985 in March; the first time this number has been below 1000 since May 2000. Consequently, the New House Price Index is forecast to increase 2.5 per cent this year and 2.8 per cent in 2003, on the heels of a 2.2 per cent increase last year.

Despite this increase, there will be more first-time buyers in the new homes market which is expected to result in a modest but discernible shift in the mix of homes being built from predominantly move-up homes to relatively modest and less expensive structures. Nevertheless, the majority of new homes sold this year and in 2003 are still expected to move-up quality and price. As a result, the average new single detached house price is expected to rise from $179,851 last year to $184,000 this year and again to $188,000 in 2003.

Total Housing Starts by Type, 2000 & 2001

Annual Summary Statistics

Submarket	Single		Semi		Row		Apartment		Total		
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	% Change
Halifax City	143	123	34	32	0	12	774	1043	951	1210	-21%
Dartmouth City	304	269	34	34	12	5	22	100	372	408	-9%
Bedford - Hammonds Plains	273	317	2	8	0	0	136	20	411	345	19%
Sackville	144	276	16	16	0	0	0	0	160	292	-46%
Fall River - Beaverbank	121	0	0	0	0	0	0	0	121	0	-
Halifax County Southwest	170	259	10	16	0	0	4	0	184	275	-33%
Halifax County East	141	129	0	2	0	0	0	0	141	131	8%
Total	1296	1373	96	108	12	17	936	1163	2340	2661	-12%

RENTAL MARKET

Tepid Economy and First-time Buyer Activity to Soften Rental Demand

Rental demand in Metro is expected to continue to soften over the next eight to twelve months. Relatively weak economic and employment growth in Metro will dampen the inflow of migrants to Metro while more young people are expected to leave for Ontario and Alberta which are likely to experience a resumption in economic growth before Nova Scotia. However, this relatively weak inter- and intra-provincial migration scenario will be partially offset by net positive international immigration of professionals working on various offshore energy- related contracts.

Low mortgage rates will continue to entice younger households out of tenancy and into home ownership well into 2002. Furthermore, the high-end of the rental market is also expected to face a challenge from the strengthening condominium market. Both baby boomer and young professional households looking for urban apartment lifestyle will find an increasing choice of rental and ownership apartment options and will weigh the relative benefits of investing their assets in a rapidly appreciating local condo market versus sagging stock markets. As a result, demand for rental apartments will weaken among both young and relatively older demand cohorts this year.

New Rental Development Forecast to Return to More Sustainable Levels

The decline in the Metro vacancy rate from 3.6 per cent in October 2000 to 2.8 per cent in October 2001 suggests that the Metro rental market may be headed for, or indeed already experiencing an undersupply condition. However, it is important to note that 815 rental units were completed between July 31, 2001, and March 31, 2002, and another 388 are currently under construction around the city, providing a raw supply that is sufficient to satisfy more than a year of rental demand at current absorption rates. With rental demand forecast to continue to weaken through 2002, this is expected to be sufficient to keep the overall Metro rental market in a balanced condition.

Therefore, developers are forecast to initiate only approximately 515 new rental units in 2002, as some consider producing condominium projects instead, while others wait for the expected rebound in rental demand in 2003 as the local economy returns to 1999-2000 form. As a result, the overall vacancy rate in the Halifax CMA is forecast to increase slightly to approximately 3.4 per cent this year. However, with much of this new apartment development occurring on the Halifax Peninsula where costs are high and vacancies are scarce, average rents are expected to rise by approximately 3 per cent.

2001 Census Highlights - Halifax CMA

Of the four largest population centres in Atlantic Canada, Halifax Census Metropolitan Area (CMA) had the highest population growth rate of 4.7 per cent over the five year period between the 1996 and 2001 Census. According to the 2001 Census, the population of Halifax grew from 342,966 in 1996 to 359,183 in 2001. This population growth of 16,217 is almost equally split between natural increases (a favourable rate of births to deaths) and immigration. The city experienced positive net intraprovincial migration (1.2 per 1000) and negative net interprovincial migration (-0.3 per 1000).

Halifax is experiencing a significant suburban expansion frequently referred to as the "doughnut effect", wherein the urban core remains roughly the same or decreases slightly in population, while the neighbourhoods surrounding it grow. The Clayton Park West area experienced exceptionally high population growth of 73.8 per cent, making it the most rapidly expanding area of Metro. Bedford was close behind with a population growth of 54.7 per cent and the Kingswood / Hammonds Plains area grew by 48.2 per cent. The population in downtown Halifax and Dartmouth remained roughly the same.

Also of note, four out of every ten Nova Scotians reside in Halifax. Overall, Nova Scotia's population slipped 0.1 per cent in the five year period, making it the first intercensal population decline since the 1920's.

Resale Market

Rising Mortgage Rates to Cool Hot Resale Market

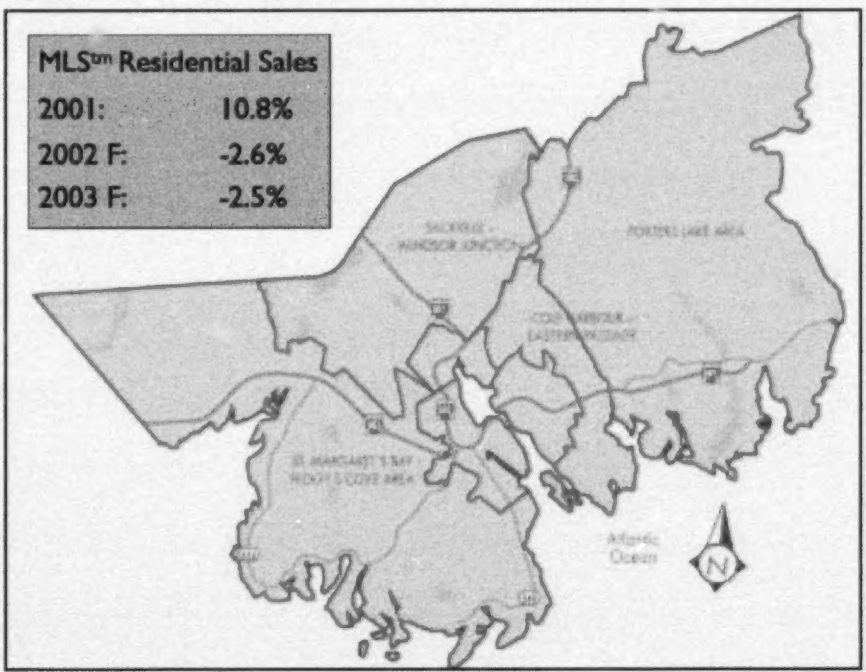
The surge in existing home sales which began last summer and accelerated with mortgage rate declines in the fall, is currently continuing unabated. MLS™ residential sales finished 2001 up almost 11 per cent from 2000 with a record year of 6,212 transactions. Through the first quarter of this year, sales are up 21 per cent from the first quarter of 2001, and are also 11 per cent higher than in the previous quarter (4Q 2001). However, mortgage rates have begun their inevitable rise back from 40 year lows and this is expected to cool existing home sales, particularly in the second half of this year and well into 2003. Furthermore, the combination of very low borrowing rates and rapidly rising prices has likely encouraged many buyers who may have otherwise waited until later in the year or even next year, to accelerate their purchase plans on the expectation that affordability conditions are likely to deteriorate in the coming years.

Consequently, a significant amount of home ownership demand has been brought forward into the fourth quarter of 2001 and the first half of 2002 and this is expected to manifest itself in considerably weaker housing demand over the forecast horizon. However, an improving local economy and labour market will provide a stimulus to the market as some households that may have been particularly concerned about their employment and income situations begin to feel more confident in longer term economic prospects and purchase accordingly. As a result, MLS™ sales are forecast to dip two to three per cent this year and again in 2003- down from record levels but still very strong in recent historical perspective.

First-time Buyers Driving Existing Home Sales

Historically, low mortgage rates have been particularly attractive to potential first-time home buyers - a demand segment that has been all but dormant in Metro since the mid 1990's. While the impressive economic growth of 1998, 1999 and 2000 provided more employment opportunities and income gains for younger households, housing prices and mortgage rates were also marching upwards, dampening interest among potential first-time buyers and keeping them in tenancy. However, tightening rental markets encouraged rent gains beyond the rate of inflation over the past two years, and when mortgage rates began to decline last year, the first-time buyer segment re-emerged as a force in the Metro housing market. Evidence of the strength of first-time buyer activity can be seen in a comparison of MLS™ sales growth and average sale price growth in 2000 and 2001. In 2000, sales fell 4 per cent but average price increased 8 per cent as move-up buyers drove demand. In 2001, sales growth accelerated to 11 per cent while average sales price growth decelerated to 5 per cent as demand began to shift to a preponderance of first-time buyers. As forecast in CMHC's *Consumer Intentions to Buy or Renovate Report-Halifax* last November, this trend has contin-

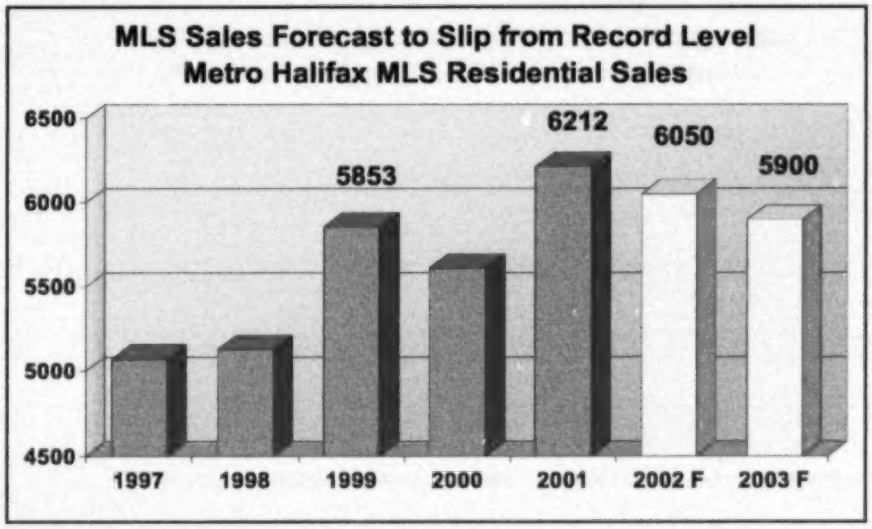
MLS™ Residential Sales	
2001:	10.8%
2002 F:	-2.6%
2003 F:	-2.5%



ued, and indeed, intensified, and first-time buyers are expected to continue to comprise a majority of the demand for existing homes into 2003.

Market Conditions Increasingly Favouring Sellers

The Metro resale market has been a seller's market for almost a year and the combination of record levels of sales and dwindling active listings over the past six months has tilted the market even further in favour of sellers. Seasonally-adjusted monthly sales have been over 500 since March 2001 and accelerated to over 600 in December, where they have remained since. Simultaneously, seasonally-adjusted active listings dipped below 2,300 last April and are now below 2,100. Consequently, average sale and list prices have been accelerating and days on market have been falling as prospective buyers act aggressively in a market characterized by limited choice and impending price increases. Seller's market conditions are expected to persist throughout 2002 as the acute shortage of homes for sale continues concurrently with healthy, albeit weakening, demand. Potential move-up buyers will weigh the benefits of cashing in their home



equity under the current seller's market conditions against the rising costs of buying an existing or new home and many are likely to opt to stay put and perhaps renovate instead. As a result, demand will continue to exceed supply in 2002 and prices are forecast to rise accordingly.

Slower Price Growth Expected Through 2003

Expect average MLS™ sales price to continue to increase this year, but at a slower pace than last year. Although seller's market conditions are expected to continue into the foreseeable future, the continuation of the aforementioned shift in demand from move-up to first-time homebuyers will partially offset market condition-related price growth. Average MLS™ residential sales price was $141,842 through the first quarter- up 9.5 per cent from the first quarter of 2001, but only 1.5 per cent from the previous quarter (Q4 2001). With housing activity forecast to slow down later in the year and into 2003, this weakening demand is expected to keep price growth below three per cent over the forecast period. With prices still increasing, however, average annual MLS™ residential sale price is expected to approach the $140,000 thousand mark by the end of next year- representing an increase of over 20 per cent since 1998.

MLS™ is a registered trade mark of the Canadian Real Estate Association.

MLS™ Existing Home Sales Activity by Submarket

	Annual Summary Statistics											
	2000				2001				Percent Change			
SUBMARKET	Sales	New Listings	Average Sale Price	Average Days on Market	Sales	New Listings	Average Sale Price	Average Days on Market	Sales	New Listings	Average Sale Price	Average Days on Market
Bedford- Hammonds Plains	444	665	$164,430	64	543	691	$171,669	72	22.3%	3.9%	4.4%	11.7%
Dartmouth City	1326	1678	$106,797	67	1381	1706	$109,309	58	4.1%	1.7%	2.4%	-14.8%
Fall River - Beaverbank	225	329	$126,458	89	243	337	$130,256	76	8.0%	2.4%	3.0%	-14.4%
Halifax City	1037	1391	$147,525	55	1107	1322	$156,146	58	6.8%	-5.0%	5.8%	5.6%
Halifax County East	362	611	$100,418	107	425	618	$103,605	109	17.4%	1.1%	3.2%	2.0%
Halifax County Southwest	421	637	$114,918	80	432	582	$126,362	80	2.6%	-8.6%	10.0%	0.6%
Sackville	539	702	$93,882	64	559	690	$100,785	57	3.7%	-1.7%	7.4%	-10.1%
Total	4354	6013	$122,047	69	4690	5946	$128,707	67	7.7%	-1.1%	5.5%	-3.3%

Source: Canadian Real Estate Association

FORECAST SUMMARY

Metropolitan Halifax - April 2002

	2000	2001	2002 F	% change	2003 F
RESALE MARKET					
MLS™ Active Listings (June peak)	2636	2440	2050	-16.0%	2300
Residential MLS™ Sales	5610	6212	6050	-2.6%	5900
Residential MLS™ Average Price	$128,003	$134,106	$137,500	2.5%	$139,000
NEW HOME MARKET					
Total Starts	2661	2340	2265	-3.2%	2125
Single-detached	1373	1296	1275	-1.6%	1250
Multiple Unit	1288	1044	990	-5.2%	875
Semi-detached	108	96	120	25.0%	100
Row	17	12	40	233.3%	50
Apartment	1163	936	830	-11.3%	725
Average New House Price (Single-detached)	$171,045	$179,851	$184,000	2.3%	$188,000
RENTAL MARKET					
Vacancy Rate- 2 bedroom	3.7%	3.4%	3.6%		3.5%
Average Rent- 2 bedroom	$648	$674	$695	3.1%	$715
Rental Housing Starts	794	680	515	-24.3%	525
ECONOMIC OVERVIEW					
Mortgage Rate- 3 year term	8.17%	5.47%	6.82%		7.42%
Mortgage Rate- 5 year term	8.35%	6.15%	7.78%		8.33%
Employed	183,458	183,733	184,652		189,268
Employment growth	5.2%	0.2%	0.5%		2.5%
Unemployment rate	6.0%	6.9%	7.4%		6.7%

MLS® is a registered trade mark of the Canadian Real Estate Association

Housing Market Outlook is is published twice a year for the Halifax market. Annual subscriptions to **Housing Market Outlook** is $ 40 plus applicable taxes. For more information, or to subscribe, contact Johannes O'Callaghan at the Atlantic Business Centre at (902) 426-4708. Order no. 7365E

Ce document est disponible en français. Veuillez communiquer avec Johannes O'Callaghan au Centre d'affaires de l'Atlantique au (902)426-4708.

© 2002 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, electronic, photocopying, recording or otherwise without the prior written permission of Canada Mortgage and Housing Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and opinions contained in this publication are based on various sources believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibilities.